

DATA BRIEF | SEPTEMBER 2023

Blending with Technical Assistance

HIGHLIGHTS

- Technical assistance is most often used to de-risk investments through building operational capacity and supporting an enabling environment.
- The Convergence database has captured 270 blended finance transactions with a technical assistance component.
- In 64% of these deals, technical assistance has been deployed alongside concessional capital.
- Most technical assistance transactions (61%) occur in the post-investment stage.
- Technical assistance is most used in the financial services (28%), energy (27%), and agricultural sectors (27%).
- Over half (51%) the deals containing technical assistance are structured through funds.
- Development agencies are the largest providers of technical assistance (46%), followed by multilateral development banks / development finance institutions (38%).
- Challenges in using technical assistance include knowing how much to deploy and when to use it, a lack of funds to implement recommendations, and the potential for duplicating efforts.
- Opportunities include sharing data and knowledge, creating more flexible technical assistance structures, and increasing its use to support an enabling regulatory environment.

Introduction

Technical assistance (TA) in blended finance transactions can be essential to capacity-building and de-risking potential investments in new or uncertain markets. A versatile form of aid, TA can be used for advisory, assistance, or training programs. Generally, the purpose of TA is to build the operational capacity of investees or those along the value chain, to reduce high transaction costs, or to create a more enabling environment for investors. The goal of TA is to increase the development impacts of private financing to forward the Sustainable Development Goals (SDGs).

TA can be deployed at different stages throughout the lifecycle of an investment. The two most common are [pre-investment and post-investment](#). Pre-investment TA is essential in nascent markets with a lack of bankable projects. At this stage, TA can help a fund, business, or project become investment-ready and provide support during the feasibility or due diligence processes. Post-investment TA, on the other hand, is often used to integrate environmental, social, and governance (ESG) principles (or other reporting frameworks) or to provide capacity building and training for operational efficiency.

A third form of TA involves subsidizing the cost of business, e.g., by funding product development or market research. Lastly, TA can be used in other circumstances to help create an enabling environment for an investment to succeed. This can include aiding governments in creating regulations to reduce barriers to investments, or funding awareness campaigns.

Figure 1 shows a breakdown of TA deals by stage as captured by Convergence's Historical Deals Database (HDD)¹, along with the total funding investors have provided for each. Post-investment TA accounts for the largest portion by both percentage of total TA deals (61%) and total investor funding (USD 945 million).

Currently, Convergence data shows pre-investment TA accounts for 25% of TA deals. However, in conversations with TA practitioners, it was noted that demand for pre-investment TA and TA to support an enabling environment is growing at a faster rate than the other types. Carmelo Cocuzza of the European Investment Bank (EIB) states,

“Traditionally, technical assistance applied by the EIB tended to focus more on the successful implementation of projects and to ensure their sustainability. Apart from pre-feasibility and feasibility studies, we were really looking

at the downstream side in terms of building the capacity of the borrowers or executing agencies in terms of project delivery. What we are seeing now much more is a move towards upstream TA and project development, to the extent that it is also covering the provision of an enabling environment conducive towards private sector investment and covering policy and regulatory frameworks to support projects bankability.”

Technical assistance support can vary significantly in size. According to a [study](#) conducted by TechnoServe on the agricultural sector in sub-Saharan Africa, core business development service facilities as a form of TA are typically smaller at an average of \$2 million per fund, and have a lower cost per project and a lower management fee. Inclusive and value chain development TA facilities are often larger at an average of \$5 million per fund and have higher costs per project and higher management fees. Convergence's HDD has found that on average, TA investments represent approximately 7% of total deal sizes.

This brief analyzes how TA has been deployed in blended finance transactions to date, presenting insights from interviews conducted with industry stakeholders. Convergence's HDD has recorded 270 blended transactions with a TA component (26% of total transactions), with USD 1.7 billion spent on TA in total.

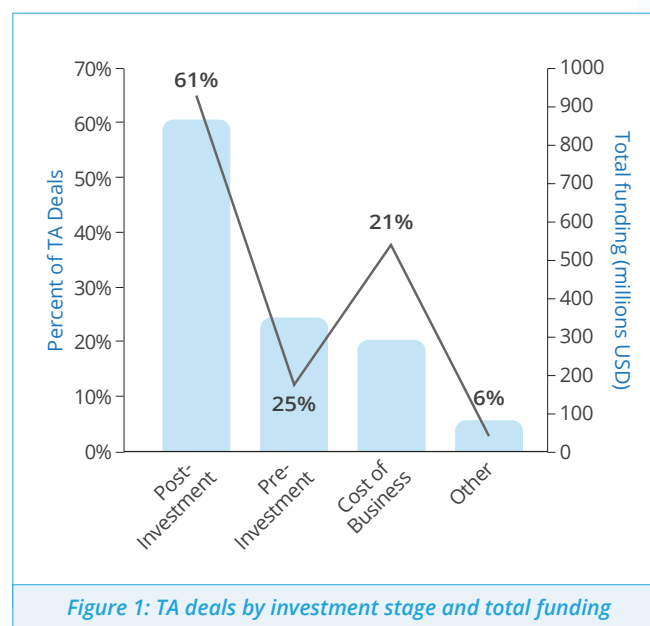


Figure 1: TA deals by investment stage and total funding

1 Approximately 32 deals in the HDD with a TA component provided funding to more than one stage in an investment. In Figure 1, these deals are represented in each relevant stage as a separate deal.

Blending with Technical Assistance: Analysis

TECHNICAL ASSISTANCE IS DEPLOYED MOST OFTEN ALONGSIDE OTHER BLENDING ARCHETYPES²

TA is the sole blending archetype used in 26% of transactions in the HDD that contain TA components. Most TA is used alongside other forms of concessional capital (64%). For example, [Babban Gona](#), an agriculture-oriented social enterprise that provides end-to-end services for franchise farmer groups in northern Nigeria, received approximately \$4.8 million in TA grants from the United States Agency for International Development (USAID). The grant supported the company's efforts in attracting commercial debt financing to grow its operations. The Skoll Foundation then awarded a \$1.5 million grant, while the European Development Finance Institution provided nearly \$5.9 million in subordinate debt.

Overall, the combination of TA and concessional loans allowed the company to leverage approximately \$22.5 million in private investment.

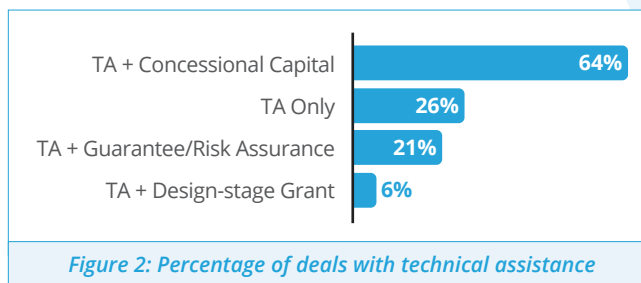


Figure 2: Percentage of deals with technical assistance

ENERGY, FINANCE SERVICES & AGRICULTURE ARE THE LARGEST SECTORS FOR TECHNICAL ASSISTANCE

The three sectors with the highest rates of TA usage are energy (28%), financial services (27%), and agriculture (27%). In 2022, the International Energy Agency (IEA) [estimated](#) that 774 million people globally did not have access to electricity, with 85% of this population located in Africa. IEA further reported that to ensure global access, USD 30 billion would be required annually from now to 2030. TA can help close the financing gap in the energy sector by de-risking projects and creating a more appealing investment environment. For example, during the development of the Syrdarya Power Plant, the [European Bank for Reconstruction and Development](#) (EBRD) supported the Uzbekistan government in drafting a legal framework consistent with international best practices, along with developing and implementing a policy to address violence or harassment, to ensure the project met international standards.

In the financial services sector, Isabelle Van Grunderbeeck from EIB noted that TA is becoming a more common component of blended finance transactions:

“Particularly in the financial sector, [technical assistance] used to be considered as nice to have. More and more, technical assistance is seen as an essential element of operations. We see technical assistance as needed for capacity building...and [to affect] the risk perception of financial intermediaries and accompany them to develop new segments.”

Regarding the agriculture sector, a [report](#) by Enclude found that while agri-businesses face challenges in accessing finances, investors have difficulty establishing a pipeline that

aligns with their risk-return expectations and ticket size. TA, however, can help to catalyze the availability of financing by reducing risk and developing the pipeline.

While there is potential for TA to mitigate risk and catalyze financing in a blended finance structure, there remain challenges despite its application. For example, in the agriculture sector, according to Hedwig Siewertsen, co-author of [Transforming Agriculture by Linking Technical Assistance to Blended Finance: Trends and Lessons from Africa](#),

“With technical assistance, the distinguishment between food crops and cash crops is very relevant but I hardly see that distinguishment being made. While the issues are very different between tight (cash crops) and loose value chains (food crops), the risks in both types of value chains are very different too (foreign exchange risk for cash crops vs. government interference risk in food crops).”

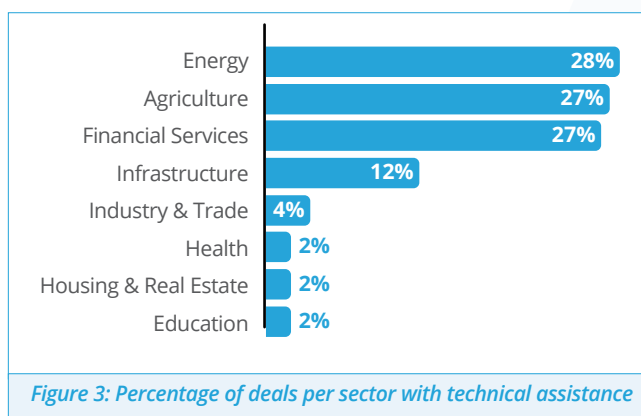


Figure 3: Percentage of deals per sector with technical assistance

² There are five main blending archetypes: design funding (supports costs and activities that lead to investment); technical assistance (funding to supplement the capacity of investees and lower transaction costs); results-based financing (ties payment to outputs/outcomes, donors pay for outputs and not inputs); guarantee (protects investors against capital losses or provide credit enhancement); and concessional debt or equity (subordinate and/or junior terms compared to co-investors).

OVER HALF OF TECHNICAL ASSISTANCE TRANSACTIONS ARE STRUCTURED THROUGH FUNDS

51% of transactions in the HDD that have a TA component are funds. TA can be deployed in several ways within a fund. First, investors can provide TA directly to fund managers to help improve the development and operations of the fund. For example, the Food Securities Fund benefitted from a TA grant provided by the Global Environment Facility (GEF). The [GEF grant](#) was used to cover preparation costs and to set up a robust monitoring and reporting system to strengthen the viability of the fund's activities.

Roan Borst from Triple Jump notes the work they do with funds,

“is mainly on digitization and about their impact measurement. Sometimes we also work with them to establish their own way to do more portfolio engagement. We’ve also done projects more on the legal aspects, and some projects for just overall efficiency.”

More commonly, TA is used as part of the fund's investment strategy to increase the likelihood of success in its investees. For example, the [AfricaGoGreen Fund](#) is accompanied by a technical assistance facility (TAF) funded by the KfW

Development Bank that supports project development and market studies, and provides transaction advisory and capacity-building services to investees in its portfolio.

Approximately one in five (21%) blended finance deals with a TA component are structured through companies. According to Convergence's HDD, TA has been deployed to a lesser extent to projects, commonly to provide pre-investment support including project preparation, implementation, and stakeholder negotiations.

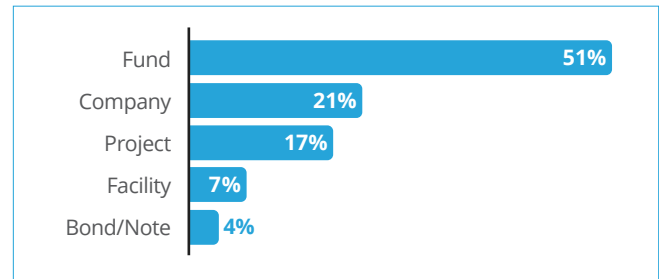


Figure 4: Percentage of deals by type with technical assistance

LOW-INCOME POPULATIONS IN AFRICA ARE THE LARGEST BENEFICIARIES OF TECHNICAL ASSISTANCE

Most blended finance transactions with TA (63%) have benefited low-income populations. Overall, sub-Saharan Africa attracts the largest amount of TA, both by percentage of TA deals (nearly 50% of TA deals have at least a partial impact in sub-Saharan Africa) and by funding volume (approximately USD 205.2 million).

TA can play an important role in strengthening under-developed markets by building the capacity of local stakeholders and broadly supporting the local enabling environment. Cocuzza from EIB provided an example of how they are attempting to achieve these goals:

“For everything that leads to the establishment of new products or markets that can be considered important or interesting from an investment and commercial perspective, we mobilize technical assistance. For instance, in Senegal, we started looking at rice production and we wanted to help the government develop this sector. So, we provided a feasibility study for developing the rice market on behalf of the Government that was made available to the whole private sector...so that they could have an overview of the potential for developing that kind of market segment.”

Rural and smallholder farmers make up over half the total TA transaction end beneficiaries (57%), which reflects the importance of TA in the agricultural sector. Within local communities, challenges remain in deploying agriculture-focused TA. Siewersten states that a key challenge is:

“...the lack of engagement of local service providers. There are still a lot of international companies that have no presence on the ground and that offer boilerplate types of training on what are the risks in agriculture, what is value chain finance, what are the climate risks in agricultural investments, etc.”

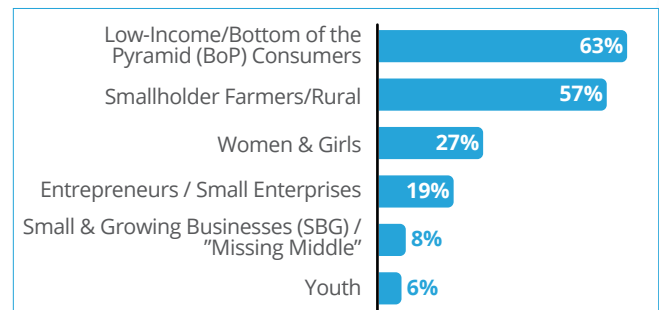


Figure 5: Percentage of deals by end beneficiary with technical assistance

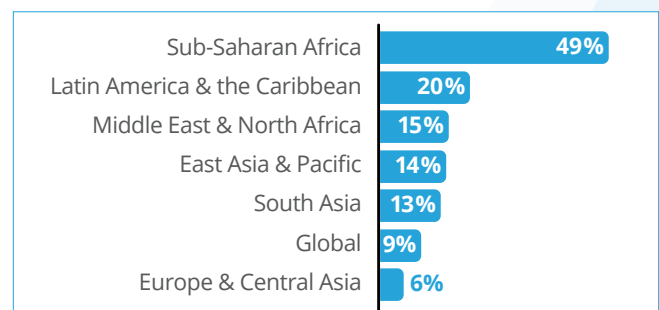
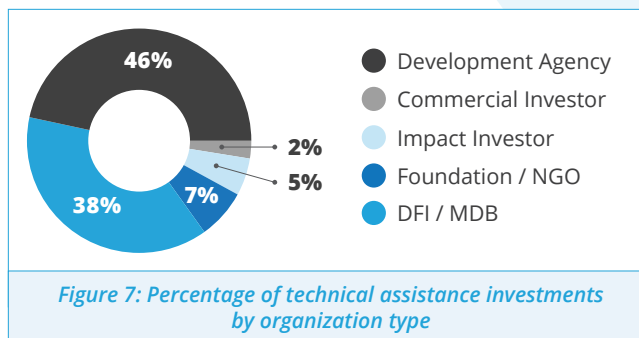


Figure 6: Percentage of deals by region with technical assistance

PUBLIC SECTOR HAS PROVIDED 84% OF TECHNICAL ASSISTANCE GRANTS

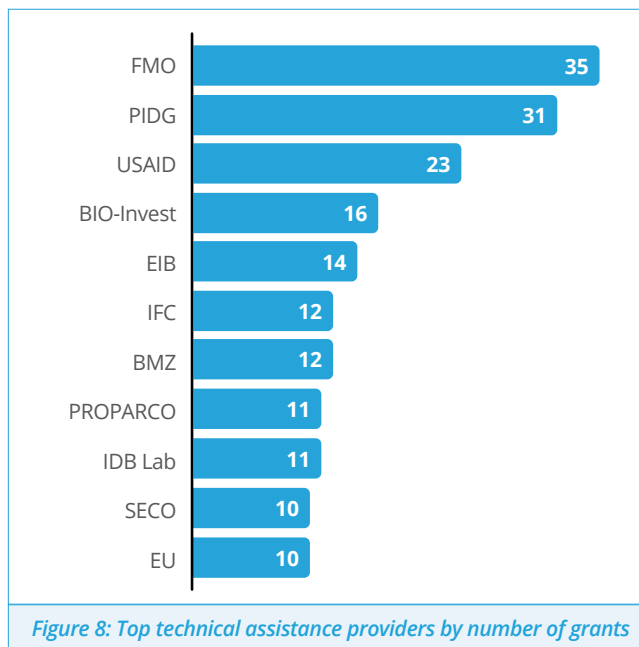
Funding for TA has been provided most often by the public sector. Development agencies, development finance institutions (DFIs), and multilateral development banks (MDBs) have accounted for 84% of grants provided to blended finance transactions for TA. TA is an official development assistance (ODA)-eligible way for development agencies to participate in blended finance transactions. Impact investors and commercial investors have been the least likely to provide TA funds (5% and 2% respectively).



FMO, PIDG AND USAID ARE TOP TECHNICAL ASSISTANCE PROVIDERS

The most frequent providers of technical assistance funding to date have been the Netherlands Development Finance Company (FMO, 35 transactions), Private Infrastructure Development Group (PIDG, 21), and USAID (23). TA providers can have different mandates and methods for where and how they deliver TA. For example, FMO is a development finance institution that provides TA through a TAF as part of its [Ventures Program](#), which focuses on early-stage, tech-enabled direct investments alongside a lead investor and indirect investments with a more generalist focus on funds. Their three-pronged approach uses TA to support investee strengthening, entrepreneurial ecosystem building, and community engagement.

The [PIDG TAF](#), on the other hand, supports companies that PIDG works with to meet a range of needs associated with the infrastructure project development cycle, including the assessment of potential investment opportunities and building capacity of host country partners and local investors.



Reflections

In our conversations with various blended finance practitioners, several themes became apparent regarding challenges and opportunities for the use of TA.

CHALLENGES

1 KNOWING WHEN & HOW MUCH

Luke Foley from PIDG suggests:

“the key challenge is going to be ensuring that you’re using the right amount of technical assistance at the right time for the right purpose.”

There is no standardized formula for how much TA to deploy in any given transaction. In each instance, the TA provider must decide whether TA is the most appropriate tool, what stage of the deal it is most effective, and what is the optimal amount. The decisions become more difficult considering TA is often deployed in underdeveloped markets that lack essential data. Foley continues to explain the issue:

“The early-stage TA is particularly important if you’re operating in frontier markets or in sectors which don’t have a lot of track record, because that’s when there’s going to be the least amount of available data to make an investment decision. There’s finely balanced discussion on this point, which is when do you use technical assistance and when should the costs be borne by the developer and capitalised within the project structure.”

Roan Borst explains Triple Jump’s thought process when deciding whether to use TA:

“Even though it depends per mandate, we generally look at three areas. One is whether it makes sense that we step in as a funder, where we look at if it fits within our mandate and whether another party (LPs, GPs or companies) are not able to pay (partly) for the costs. The second area is whether the project is well designed and sustainable, where we look at the project team and the governance in place. The last area look at whether it is a good use of public funds, where we look at the potential impact as well as the market learnings.”

Additionally, it can be difficult to decipher whether TA would be effective in creating a bankable investment, or if there are other challenges that would cause an investment to fail. Autumn Gorman from USAID notes,

“One of the challenges we face is figuring out if those deals are not bankable for a reason. Even though they

may be providing a good service or product, it may not be the best business model.”

To gauge whether TA will be effective, various providers use different factors to help them decide. For example, [FinDev Canada](#) accepts proposals from clients and assesses them based on whether the proposal is based in a key investment area; whether it focuses on gender action, impactful data, and business performance; and on client readiness, the potential to achieve development objectives, and the potential to learn lessons and share knowledge.

Ultimately, if deployed improperly, TA could have a chilling effect on the amount of private capital catalyzed. Rather than crowding in investment, overly subsidizing projects or supporting a deal through excessive grants could have the unintended consequence of crowding it out.

International funding can also unintentionally displace local capacity, leading to a hollowing out of local knowledge and institutions. One [study found](#) that external support may produce short-term progress, but may not address underlying capability challenges if deployed inappropriately. This can result in a system reverting to “business as usual” as soon as temporary donor support is removed. International organizations that deploy TA funding may also not be the best situated to understand local challenges.

2 LACK OF FUNDS

A second challenge is a lack of available funds to implement the lessons learned through TA programs. According to Siewersten,

“Companies need cash flow to implement technical advice. For example, many companies know that they need to recruit a good CFO, but they don’t have the money to pay for one. A lot of the challenges I see are executing capacity related to companies’ financial capacity to hire quality staff. And that is because companies are not making enough money to hire quality staff, a vicious circle. A lot of the technical assistance is not leading to any company growth.”

Even if a TA beneficiary gains the skills and methods to become successful, without the funding required to implement recommended changes, the venture could fail. This could partially explain why the majority of blended finance deals in the HDD that contain TA also use another method of concessional financing, such as concessional capital, guarantees, or design-stage grant funding. Pairing TA with another blended finance archetype may help ensure the deal has a higher likelihood of success.

3 DUPLICATING EFFORTS & THE NEED FOR BUY-IN

A third challenge TA providers face is how to ensure the additionality of their funding. Siewersten notes,

“Another challenge I often observe is duplication of efforts, and there’s a lot of duplicating, training and business development services provision. There’s no central database where you can see who has received what and because technical support is often offered for free, companies and banks are not saying no to that technical support, even if it is not a priority for them.”

This can lead to an inefficient use of TA resources, where fund managers, companies or projects are repeatedly accessing TA without necessarily requiring it. To mitigate this challenge, TA providers may seek buy-in from funding recipients. Cocuzza explains EIB’s process for ensuring TA is being used where it is needed most:

“Whenever we develop new advisory programs and need to identify beneficiary scoping, if there’s no buy-in, we never try to impose any partner Government

or institution into accepting technical assistance. Customarily we carry out a screening process to understand whether there is 1) an identified need for the advisory service for the particular beneficiary and 2) agreement and confirmation from the beneficiary also in terms of their buy-in. More often than not, we ask the counterpart to put some skin in the game, partake in the investments or cover some of the local costs for the technical assistance that we provide. Initially we simply carry out a screening by way of interviews, surveys or responses to a questionnaire. We notice that if a specific government entity or potential beneficiary responds with a clear strategic development plan and a detailed description on their capacity building needs, that’s generally an initial sign of buy-in for the implementation of a dedicated TA program.”

PIDG, on the other hand, has sought to address the issue of buy-in by making some TA grants returnable. Foley shares,

“We generally look for our TA to be returnable, particularly when we are taking a lot of this early-stage project risk. In such cases, and where feasible for the project, this funding should be returned if the project is successful. In addition to this, there are two further reasons [to make TA returnable]. One is that it’s important to ensure there’s skin in the game from the other relevant project parties. The other reason is the reality on the supply side. TA funding has been reduced or redirected in recent years, and that results in a reduced scope of pure grant TA funding.”

OPPORTUNITIES

1 SHARING DATA & BEST PRACTICES

With the challenge of potentially duplicating efforts comes the opportunity for sharing data and best practices. To ensure TA is being used where it is needed the most, TA providers should be transparent about the deals they are supporting. In this way, investees are not tempted to over-rely on TA grant funding by applying to multiple funding sources. If TA providers publicly release information pertaining to how and where they use TA, it can quickly become clear which stakeholders are already beneficiaries and which could use additional aid.

As well, making best practices publicly available could help reduce the cost of or need for TA. Developing

programs and creating information databases that incorporate broad knowledge that can be easily accessed by potential investees could create a stronger ecosystem for investment. For example, in the agricultural sector, Siewersten explains,

“What’s needed to help financial institutions’ access to agricultural know-how at low cost, is to develop public databases with in-depth country, region-specific data points, key metrics on agricultural businesses, like how much does a chicken eat? How much maize do you produce on an acre? That’s knowledge that most of the bankers need because they can’t afford to hire agronomists.”

2 CREATING MORE FLEXIBLE TECHNICAL ASSISTANCE

Since the 1980s, the scope and purpose of TA has dramatically changed. Initially, [the purpose of TA](#) was to transfer skills to individuals to increase the capacity of government institutions. Throughout the 1990s, the focus shifted more to organizational reform and restructuring. Since then, increasing emphasis has been on addressing barriers to investment, and operations in the enabling environment along with process innovation.

There are, however, continuous opportunities to increase the effectiveness of TA and push for innovative methods for how it works alongside or within blended finance structures. PIDG is striving to do just that. Foley shares some insight into how PIDG innovates with TA:

"[PIDG] can provide support to projects as well as to governments or offtakers. For governments and offtakers, we can procure independent advice to support governments in their negotiations with private sector developers. Our aim is to offer effective 'just-in-time' TA with the decision on funding and disbursement not taking more than four weeks."

Creating responsive TA that is nimble enough to adapt to changing needs in the field, and that can serve a wide variety of stakeholders, is essential for TA to evolve into a more effective tool.

3 USING TECHNICAL ASSISTANCE FOR SYSTEM CHANGE

According to data from Convergence's HDD, TA that supports the enabling environment to reduce barriers to investors accounts for just 6% of total TA blended finance deals. TA deployed to support systemic changes could create larger impacts on the investment environment than supporting individual companies or projects.

Borst sees TA as:

"...a tool for ecosystem development in some of the areas where the enabling environment is not so strong. I think the investment space may be looking at these to unlock new markets and increasing viable funding opportunities, as some of the other markets have become a bit more mature. So perhaps that's where the trend is going."

Gorman from USAID believes that TA that focuses on the enabling environment can lead to more sustainable outcomes for investment ecosystems:

"We're trying to get investors to behave in new ways, enter different markets, serve different types of customers, or support first time fund managers. We're trying to tip the scale. It's really about the ecosystem additionality so that there's sustainability afterwards. We seek to make regulatory system changes to allow other investors to succeed."

CONCLUSIONS

TA is used globally to bolster the impacts of blended finance transactions and help achieve the SDGs. Challenges remain in ensuring that funds are used responsibly and effectively, and that TA achieves a measurable and sustainable result. Its varied structure,

however, leaves many opportunities for improvement, if providers are willing to share data and best practices, continue to seek innovative means of TA delivery, and focus on systemic changes that create ample investment opportunities.

Methodology & Notes

1. **Convergence's database:** Convergence maintains the largest and most detailed database of blended finance transactions that have reached financial close. Given the current state of information sharing, it is not possible for this database to be fully comprehensive. We have made efforts to capture all relevant blended finance transactions; however, there are likely more transactions that have not been captured.
2. **Scope of available data:** This brief analyzes 270 blended finance transactions that use technical assistance. This brief also draws upon stakeholder interviews conducted with Roan Borst, Technical Assistance Manager, Marketing Development at Triple Jump; Hedwig Siewertsen, Head, Inclusive Finance at AGRA, Sustainably Growing Africa's Food System; Luke Foley, Deputy Head of Technical Assistance at the Private Infrastructure Development Group; Carmelo Cocuzza, Head of Advisory & Blending and Isabelle Van Grunderbeek, Head of Unit, Financial Inclusion, Advisory Services Division at the European Investment Bank; and Autumn Gorman, Acting Managing Director and Senior Director & Private Enterprise Officer, PSE Hub Incubator, Lawrence Camp, Senior Consultant, Access to Finance, and Matt Nigrelli, Director, Financial Industry Engagement at the United States Agency for International Development.
3. **Target regions and countries:** Convergence tracks region and country data by stated region(s) and countries of focus at the time of financial close, not actual investment flows. Often, regions and countries of eligibility are broader than those explicitly stated.

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CONVERGENCE is the global network for blended finance. We generate blended finance data, intelligence, and deal flow to increase private sector investment in developing countries.



BLENDING FINANCE uses catalytic capital from public or philanthropic sources to scale up private sector investment in emerging markets to realize the SDGs.



Our **GLOBAL MEMBERSHIP** includes public, private, and philanthropic investors as well as sponsors of transactions and funds. We offer this community a curated, online platform to connect with each other on blended finance transactions in progress, as well as exclusive access to original market intelligence and knowledge products such as case studies, reports, trainings, and webinars. To accelerate advances in the field, Convergence also provides grants for the design of vehicles that could attract private capital to global development at scale.



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